

VZCZCXRO8318
OO RUEHDT RUEHPB
DE RUEHHM #0248/01 0671139
ZNR UUUUU ZZH
O P 071139Z MAR 08
FM AMCONSUL HO CHI MINH CITY
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3845
INFO RUEHHI/AMEMBASSY HANOI PRIORITY 2561
RUCPDOG/USDOC WASHDC PRIORITY 0068
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCNARF/ASEAN REGIONAL FORUM COLLECTIVE
RUEHHM/AMCONSUL HO CHI MINH CITY 4067

UNCLAS SECTION 01 OF 02 HO CHI MINH CITY 000248

SIPDIS

SENSITIVE
SIPDIS

STATE FOR EAP/MLS, USAID/ANE DONAVAN, EEB/TPP/BTA/ANA
STATE PASS USTR FOR BISBEE
USDOL FOR DUS PONTICELLI, ZHAO
USDOC FOR 4431/MAC/AP/OPB/VLC/HPPHO
TREASURY FOR CHUN

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EIND](#) [PGOV](#) [PINR](#) [VN](#)

SUBJECT: OUSTING CORRUPT LEADER IS A START, BUT CAN THO NEEDS
TRANSPARENCY AND COMPETITION

HO CHI MIN 00000248 001.2 OF 002

[11](#). (SBU) Following allegations of land-deal corruption, the Communist Party Central Committee reprimanded and fired Can Tho People's Committee Chairman Vo Thanh Tong on March 3. This is good news for the "capital of the Mekong" and an encouraging, though not unprecedented, development. Can Tho's private sector maintains they are frozen out of the economy, with SOE bias and poor transparency creating an environment where bureaucratic ineptitude and corruption are endemic. As a result, most of the city's 16.5 percent growth (double the national average) last year came through official development assistance or State-owned enterprises (SOEs) developing massive infrastructure projects. Tong's successor, Mr. Tran Thanh Man, is a well-connected Can Tho politician who made his name battling "social evils" but will have his hands full trying to open up Can Tho's economy. End Summary.

Lax Management and Land Scandal Bring Down Municipal Leader

[12](#). (SBU) On March 3, the People's Council of Can Tho Municipality announced that Can Tho People's Committee Chairman Vo Thanh Tong and Vice Chairman Pham Phuoc Nhu had been removed from their positions for administrative improprieties. Media reports focused on two charges: Tong's approving "excessive" performance bonuses for some city departments and his role in improperly licensing land developments in Can Tho City.

[13](#). (SBU) Central Committee Party Inspectors found that Tong ignored investment licensing regulations when he signed a decision for South Korea's Chong Ho VN Company to buy "golden land" in downtown Can Tho for a bowling center. The land quickly changed hands with the Korean firm netting a tidy profit that Party Officials felt the city should have been able to capture directly. This bad decision looked worse when Vice Chairman Nhu produced a letter from Tong directing the vice chairman to award the Chong Ho the license, circumventing normal city licensing procedures. The Party Central Committee's Inspection Committee officially "reprimanded" Tong and Nhu on December 28, 2007 for "having loosely managed and monitored land deals". (Note: In the Party ranks, the lightest form of penalty is reprimand, then comes 'warning', 'removal' from Party position and 'expel' from Party. End note.)

[14](#). (SBU) Corruption associated with land deals grabs headlines,

but Tong also made administrative decisions that are best inappropriate and possibly even corrupt. In the Vietnamese system, if city department exceed their pre-set revenue targets, the People's Council can authorize performance bonuses. Tong and Nhu approved performance bonuses some 5.3 billion VND (U.S. \$330,000) in excess of the legal limits. (Comment: This is a far from modest sum by Vietnamese standards, given it is roughly 400 times the per capita income in Vietnam. End comment.) In January, the Inspection Committee of the Party Central Committee issued a "warning" to Tong and Nhu for "serious violations in management" in approving these excessive and illegal bonuses. Shortly after the lunar New Year holiday, the two officials were removed from office.

Lack of Competition and Transparency Breed Corruption

15. (SBU) By censuring and removing Tong and Nhan, the Communist Party may be responding to the symptoms without treating the disease affecting Can Tho -- an overwhelming bias in favor of State Owned Enterprises (SOE's) over private firms. Can Tho's economy grew at a blistering 16.3 per cent in 2007, nearly twice the national average, but the economy is tough for the private business community. (Comment: Infrastructure spending drove the growth statistics. The Can Tho bridge alone will cost \$340 million, and recent GVN reports describe a new Mekong Delta infrastructure fund of over \$300 million. End comment.) According to the private Vietnamese firms who make up the Can Tho Business Association, however, the infrastructure boom has not benefited private firms at all. Not only do master contracts go to SOE's, even smaller sub-contracts flow exclusively to SOE's. Business leaders complain that an opaque and corrupt bidding process for public works and an entrepreneur-averse government bureaucracy disadvantage the private sector. Private companies also find it difficult to meet the minimum capital requirements to bid on major infrastructure projects. Even for private projects, financing is difficult to come by because banks that lend freely to SOEs turn away collateral-poor entrepreneurs.

HO CHI MIN 00000248 002.2 OF 002

16. (SBU) On paper, at least, Can Tho is a business-friendly city. Private business leaders state, however, that while higher-level provincial officials "talk the talk" of a one-stop shop for licensing projects and registering businesses, line bureaucrats that issue permits and assign contracts are "uneducated" and often require informal payments.

Foreign Investors Wary

17. (SBU) Foreign investors also tell us Can Tho's investment environment keeps many away despite the city's growth rate. Inside the eerily empty building housing Can Tho's Department of Planning and Investment (DPI), officials told Econoff that while donors pledged \$67 million in ODA last year, private foreign investors committed only \$13 million. DPI attributed the admittedly low amount of FDI to the higher construction costs required by the sandy local soil and an incompetent city bureaucracy. Recent efforts by city officials to improve the quality of their workforce, including hefty signing bonuses and free housing for successful job applicants with Masters' or PhD degrees, have yet to yield fruit. Queried about a possible link between recently-exposed high-level corruption and the paucity of FDI, officials maintained that such malfeasance was not a factor, noting that the leaders in question frequently traveled abroad to drum up foreign investment.

Comment

18. (SBU) By sacking the chairman of one of Vietnam's largest cities, the Party is making a very public statement about the battle against corruption. Unfortunately, the sacking was not accompanied by changes in underlying rules and processes that produce an environment that is highly conducive to corruption. The ability of senior party and government officials to arrange the sale or transfer of land to themselves, their families and

their political supporters ranks among the most pervasive and ingrained forms of public corruption in Vietnam. In Can Tho, as in most of Vietnam, land use and planning decisions are still largely left up to individuals rather than regulated in a systematic, transparent manner. In firing Tong, the Party also officially only cited his "mismanagement" and "improper licensing" rather than outright corruption. Unfortunately, omission of corruption charges not only reflects a deference to a senior party official but also a widespread feeling among many party officials that rigged land deals are not inherently corrupt as long as those involved are not too greedy. Despite these negative indicators, change is occurring in many provinces. Successful provincial leaders tell us policy and analytical tools like the USAID-funded Vietnam Provincial Competitiveness Index have provided them with an almost ideal combination of objective feedback on performance and information on best practices for improving economic governance. We will encourage Tong's replacement, Mr. Tran Thanh, to take these lessons to heart, especially transparency, SOE bias and land management.

Biographical Notes

¶9. (SBU) Can Tho's new Chairman, Mr. Tran Thanh, was born on August 12, 1962 in Truong Long Commune, Chau Thanh A District, Hau Giang Province and holds a bachelor's degree in politics and a master's degree in business administration. Prior to his March 2, 2008 election, Mr. Man was Secretary of the Party Committee of Binh Thuy District, Can Tho City and Substitute Member of the Central Party Committee. Before being transferred to Binh Thuy, Man was Vice-Chairman in charge of cultural and social affairs of Can Tho Province from 1999-2004, Chief of Staff of Can Tho Province People's Committee and Secretary of the Youth's Union of Can Tho Province. Man is quite open in discussion with Consulate officers and is considered tough in combating social evils during his term as Vice-Chairman of Can Tho province. In April 2007, he applied for a visa to travel to the U.S. to meet with some American potential investors in Can Tho. Just after he was elected People's Committee Chairman, Man said that his top priorities would be developing human resources, infrastructure, schools, hospitals, housing projects in Can Tho. End bio notes.

¶10. (U) This cable was coordinated with Embassy Hanoi.
FAIRFAX